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Effect of Internal Controls on Expenditure Management of Nandi County Government

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Abstract:
The enactment of the new constitution in 2010 brought to the fore the need for public financial management reforms hence the adoption of the Public Finance Management Act 2012 whose aim was to ensure effective, efficient and transparent, management of the country's financial resources through public participation. The need for reforms was occasioned by the anticipated creation of county governments and inherent risks witnessed previously in the centralized government where colossal amounts of public funds were lost through corruption, unfair allocation of funds fanning inequality. This study sought to examine the effect of internal control on expenditure management by county government of Nandi. The specific objectives of this study were to determine the influence of control environment, control activities, information and communication and monitoring on expenditure management of County government of Nandi. The research was conducted using both qualitative and quantitative research design. This study targeted a population of 136 respondents from the Finance and economic planning department. The researcher collected data using semi structured questionnaires with close ended questions. The instruments were subjected to cognitive pre-testing to ascertain whether the intended recipients understand the questions. The results showed cronbach's alpha test with a coefficient of 0.7 and above hence confirming the instrument's accuracy, completeness, and internal consistency respectively. Data analysis was done using both descriptive and inferential statistics. Descriptive statistics used were frequency, mean and standard deviation while correlation and Multi-linear regression analysis under inferential statistics. The researcher presented data using frequency tables and charts. The findings revealed that control environment had a positive and significant effect on expenditure management (β; 186; P<0.05). The study also revealed that control activities have a positive and significant effect on expenditure management (β; 112; P<0.05).The findings of the study also showed that information and communication had a positive and significant effect on expenditure management (β; 153; P<0.05). Lastly, the results showed that monitoring has a positive and significant effect on expenditure management (β; 427; P<0.05). The study recommended that the county government to uphold internal controls that is ensuring that the organizational structure incorporates control environment; adopt policies that strengthen the control activities, ensure timely flow of information and communication and lastly incorporate standards that ensures frequent monitoring and follow ups thus enhancing expenditure management.

Key Word: *Control Environment, Control Activities, Information and Communication, Monitoring, Expenditure Management, Nandi County Government*

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I. Introduction

Sustainable resource management to the benefit of the current and the future generations calls for sobriety and diligence in the application of the limited financial resources to spur growth and development (Epstein & Buhovac, 2014). This therefore expects the leadership to allocate resources efficiently and effectively in the interest of the public, bringing about the needed change and fulfill the aspirations of many, however, this resources end up being embezzled and misappropriated by the same people who have been entrusted by the public to manage (Rosen & Gayer, 2010).

Expenditure management involves activities related with controlling money as in using it effectively and efficiently (Warren, 2005). Proper expenditure management in a public entity ensures maximum utilization of the limited resources thereby reducing the cost of living and relaxed measures in revenue collection. Expenditure management involves proper planning and efficient use of resources. Ideal expenditure management can make sure that Financial priorities are set in accordance with organizational goals and objectives, and they are monitored and controlled in accordance with those priorities and adequate funding is available when it's needed both now and within the future (OECD, 2009). The majority of developing countries have inadequate governmental financial systems, which is well acknowledged.

Since cash is the most liquid asset that is prone to loss if not adequately regulated, strong internal controls are required for effective expenditure management. (Fight, 2002). Use of Automated systems has been proven to produce massive efficiencies in regard to a better internal control of the government finances (Gideon & Alouis, 2013). The main challenges in expenditure management rotate around internal controls (Egbetunde, 2013). Those responsible for governance and management are responsible for designing and implementing internal controls which provide reasonable certainty that the goals of an entity are met in terms of financial reporting reliability, operational efficiency, and compliance with the laws and regulations applicable (Mawanda, 2009). The internal control components include the control environment, control actions, communication and information and surveillance (Hongming & Yanan, 2012).

Internal controls are processes intended to guard the assets and guarantee, to avoid, or decrease mistakes and fraud, that all financial transactions are documented (Block & Geoffrey, 2008). The importance of internal checks is to establish an all-encompassing control system to manage resources comprehensively and effectively in all institutions. The aim of a strong internal control system is to enhance the capacity of the institution to reach the targets, to provide steady financial information, to retain assets and records, to evaluate its operational efficiency with budget, to manage the organization and to boost compliance with recommended policies and regulations. The internal control system of an institution plays an essential role in managing risks which are vital to achieving its operational objectives. A rigorous internal control system contributes to the protection of investment by stakeholders and the assets of the institution. Internal controls accelerate the success and efficiency of operation, thus ensuring consistency and compliance with legislation and regulations in internal and external financial reporting (Hayles, 2005). Ensure an institution is not exposed to financial hazards needlessly, and financial information is only utilized inside a business, through effective internal controls including adequate accounting (Hayles, 2005). The protection of assets including the prevention and detection of fraud is also supported.

Kenya is regarded as the largest, most varied and most creative economy in Eastern Africa (Karanja and Ng'ang'a, 2014). It has the ability to decrease poverty and generate jobs, not just for its inhabitants, but also in other nations in East Africa and beyond. Kenya has achieved great progress in improving the global economic environment with results always exceeding the 2006-2012 average country policy and institutional assessment (CPIA) report for Sub-Saharan Africa (SSA). But corruption, particularly regrettable in Kenya, may be a significant impediment to higher growth and wealth. There are two kinds of corruption: Small corruption and huge corruption Corruption on a large scale occurs when purchases are made at exorbitant prices. Partisan allocation of public resources to those not eligible to; fictional firms are paid for contracts they have not carried out, so value for money on public funds is not achieved. In addition, the effectiveness of Kenya's devolved governance structure enshrined in the new 2010 constitution is at a critical crossroads (Wanjau, Muiruri & Ayodo, 2012). It arose due to lack of transparency and accountability in prioritization of people driven needs resulting in bungled implementation of governments resources whose status quo was blamed on the centralized management of the countries resources (Nyanjom, 2014) giving birth to 47 county governments among them Nandi County.

The county governments therefore have autonomy in management of its funds and as such management of its expenditure is solely its responsibility as outlined by the section 102 of the PFM Act (2012) which grants power for creation of the county treasury within the county government tasked to oversee the prudent management of the public finance. It provides the framework for overall management of the Public finance of all government entities. Key among its requirement is the need to promote public engagement in budget preparation, as well as openness and accountability in its implementation of the government agenda (Wang'ombe & Kibati, 2016). The Constitution not only established 47 county governments with fiscal responsibility, but it also established new Public Finance Management (PFM) institutions such as the Commission on Revenue Allocation, Salaries and Remuneration Commission, and Office of the Controller of Budget, as well as expanding the Auditor General's mandate.In addition, the PFM Act of 2012 outlines the National Treasury's and Parliament's involvement in PFM. As a result, capacity building is essential in order for diverse players to perform their PFM responsibilities. In addition, the growing financial needs of both the National and 47 County Governments have highlighted the need for greater efficiency and effectiveness. (Mugambi & Theuri, 2014).

The Public Audit Act no 34 of 2015 section (7a) expressly requires that the auditor general provides assurances about the effectiveness of internal controls, risk management, and overall county governance. However, The Auditor general recent reports has been damning for county government of Nandi where it has been awash with queries among them, unsupported expenditure, under absorption of the budgetary allocations, inaccurate recording of transactions and missing receipts. These internal controls lapses have led to poor service delivery, stalled projects, fraud and corruption. The study assessed the effect of internal controls on expenditure management of Nandi county government.

Statement of the Problem

The governments have a responsibility of ensuring infrastructural development, economic and social empowerment of its citizen's failure of which renders the County government dysfunctional. In order to implement all this, governments need to collect sufficient revenue and employ a proper expenditure management system which enhances proper management of expenses. However, according to the Auditor general report (2018) most counties had incurred unsupported expenditure, under absorption of the budgetary allocations, inaccurate recording of transactions and missing receipts. The recent fund mismanagement in Nandi County include 2017/2018 Underreporting of kshs 270,705,223 in the statement of cash flow under net cash and cash equivalent; unsubstantiated expenses on construction of 60 ECD centers allegedly costing 16,968,889, pending bills worth 427,235,300 whose credibility could not be verified and Irregular payments of 2,651,304 to the council of governors and irregular award of tender of fuel and oil supply to two firms who were not prequalified. (Auditor-General, 2018)

Despite the adoption of Integrated Financial Management Information system (IFMIS) misappropriation of funds is still being reported in Nandi County. Could the problem of internal controls be responsible for misuse of public funds? The explanation on the source of misappropriation is scanty and currently there is no single study that has sought to establish how the internal controls affect expenditure management in Nandi County. It's evident that the vise of misuse of public funds will continue unless decisive action is taken to avert the rot. This study therefore seeks to fill this gap by investigating the effects of internal controls on expenditure management of Nandi county government from the perspective of internal controls which has been ignored since the public and the government at large stands to lose its hard earned cash in the event of this matter isn't looked at.

Objectives of the Study

i) To determine the effect of control environment on expenditure management in Nandi County.
ii) To determine the effect of Control activities on expenditure management in Nandi county government.
iii) To determine the effect of information and communication on expenditure Management in Nandi county government.
iv) To establish the effect of Monitoring on expenditure Management in Nandi county government.

II. Literature Review

Theoretical Framework

In this study, the influence of independent factors on the dependent variable was explained by four theories. The theories are: stewardship, acceptance of technology, agency and positive accountability.

The stewardship idea was established in 1991 by Davis and Donaldson. When we look at the influence of internal control on the management of spending of the Nandi county government, it is important in the sense that this theory states that the managers who operate independently would behave as responsible stewards, protecting their assets (Davis et al. 2010). The philosophy of management motivates stewards to address the requirements of the stakeholders' needs via long-term development priorities, full transparency and overshoot accountability (Contrafatto, 2014). A stewardship theorist brings forth a model where the employees champion the strategic objectives of the organization (Hernandez, 2012). Therefore if the organization does well definitely the employees will be doing well and further boost their morale and drive to serve the company better (Davis et al., 2010). Stewardship theory is therefore key in shaping the character and behavior of the employee (Schepers, Falk, de Ruyter, de Jong & Hammerschmidt, 2012).The county government being an entity with so much public interest is expected to be led by stewards who will go to great lengths to preserve that which has been entrusted to them. Adoption of stewardship approaches in the county government expenditure management will enhance service delivery, creating a good control environment that is open for close monitoring through transparency and accountability that will lead to achievement of objectives (Crib, 2006)

Davis developed this theory in 1989. The term "technology acceptance model" refers to an information system model that illustrates how various users adopt technology in order to improve their performance. When users are presented with a new technology, the model proposes that a number of factors influence their decision about how and when to use it, most notably apparent use and apparent usefulness. TAM as a theory has been criticized for its dubious objective function value, limited explanatory and prognostic power, insignificance, and lack of any real value (Chuttur, 2009). Adopting the theory requires county government management to establish an effective communication system capable of capturing current information on expenditure management from all treasury departments and relaying that information down, across, and up to ensure timely decisions are made. Thus, the theory contributes to the information and communication objectives by ensuring that data fed into the system is pertinent, reliable, timely, accessible, and consistent.

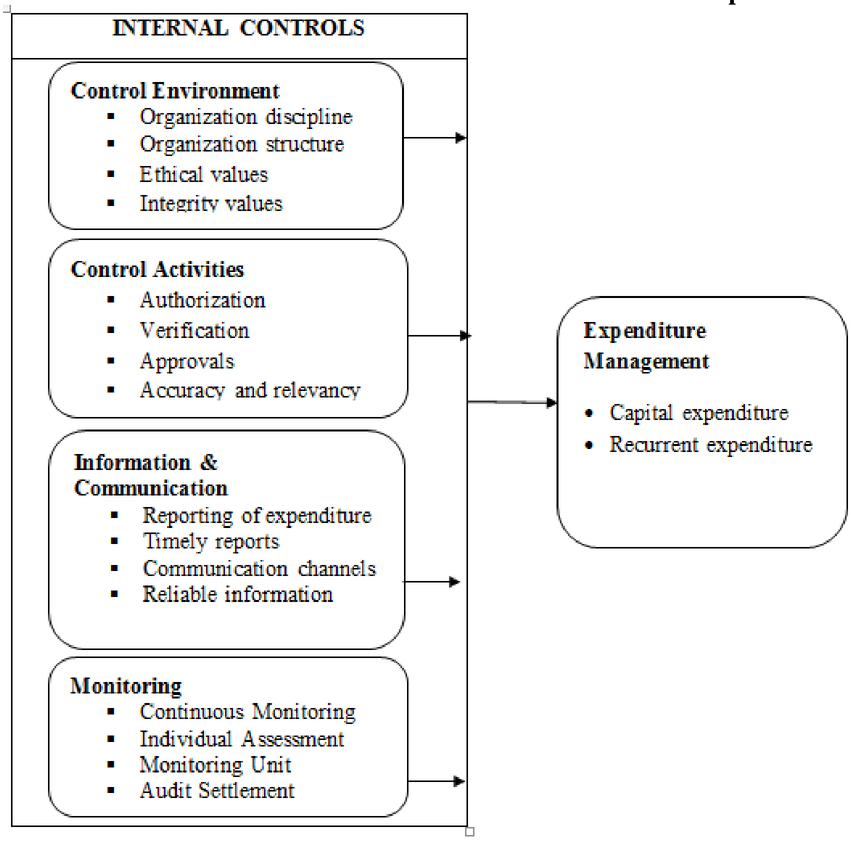
Agency theory attempts to solve problems that exist in principal and manager relationships otherwise known as Agency theory. A firm consists of arrangement where the owner of the entity's resources otherwise known as principals and those who have been tasked with the responsibility of being in charge of the entity’s resources otherwise known as managers .The Principal therefore employees internal control systems professionals to check the operations of the agent and thus enhancing the sustainability of the relationship (Jensen and meckling, 1976).The theory is applicable to this study due to the numerous use of internal control as a key tool in mitigating agency problems and reduction of costs thus benefiting the principal (Carlton & Payne ,2003) Jensen and meckling (1976) further point out that there are communication challenges between the principal and the agent as to whether the agent is concerned enough to achieve the interests of the principal, This theory therefore prescribes the development of key structures within the organizations to enhance internal controls and mitigate errant behavior of the agents.

Research is either positively or normatively categorised in accounting. Positive study is aimed at predicting and explaining certain events. Those that are linked with such research are positive theories (Deegan and Unerman, 2006). These kinds of ideas are often founded on observations which may be verified and improved experimentally via more observation. Other theories are not based on actual facts, as opposed to positive theories. These are regulatory theories built on the ideas of the researcher. Deegan and Unerman (2006) identify theory of normative research as trying to specify how to carry out a specific practice. This research is based on positive theory by employing empirical data in order to clarify the practices of business sustainability. The positive accounting theory was established by Watts and Zimmerman (1986) in terms of explanatory accounting. It aims to clarify and predict which companies will adopt a specific accounting system, but does not offer any suggestion as to which approach a company should use.

Conceptual Review

The conceptual framework has been developed from existing empirical studies and theoretical underpinning. Independent variable includes; planning, implementation, variance analysis and evaluation while the dependent variable in this study is Financial performance. Figure 1.0 presents the conceptual framework.

Independent Variables **Dependent Variable**



Source: Researcher (2020)

Figure 1.0: Conceptual Framework

Review of Study Variable

Internal control is described by COSO (1992) as a way of achieving the goals of the efficiency and effectiveness of the operations, dependability of the accounting information and conformity to legislation at different organizational levels. The purpose of COSO (1992) When an internal control system is in place, it offers appropriate safety against hazards that may threaten the attainment of the company's goals. The Board of Directors, management and other staff, entrusted with ensuring the organization has established its goals in different areas, are likely to affect internal control. Reliability of finance reporting, efficient and successful operations of entities and respect for the laws and regulations in question all depend on good internal control. The implementation of standardized processes enhances internal control operational productivity. The usefulness of control processes is enhanced. Standard definitions of processes, job descriptions and rules (Martin, Sanders & Scalan, 2014).

Internal controls focus on the environment of control (Sarens & De Beelde, 2006). It covers ethical principles, the integrity of staff responsible for the development, execution and management of controls, directors, audit committees, and the organizational structure. The control environment sets the organisation's tone through affecting the consciousness of the people (Whittington & Pany, 2001).The control environment reflects management's attitude and policies regarding the critical nature of internal controls in expenditure. Additionally, the control environment has an effect on the organization's history and culture; as a result, it establishes a supportive attitude toward internal control and management (Hayes, Dassen, Schilder, & Wallage, 2005). All components of the control environment that serve as requirements for enhanced management of costs are integrity, ethical values of the staff responsible for the monitoring of internal control systems, the commitment and competence of those carrying out tasks of assigning revenue collection, the Board of Directors or Audit Committee, the management philosophy, the operating mode and the organizational structure.

Through a periodical analysis and evaluation of internal controls, the county government guarantees the trustworthiness of its financial information according to the regulatory requirements and compliance. Internal controls ensure that all pertinent information is identified, captured, and communicated in a manner and time frame that is deemed acceptable for the purpose of enabling individuals to fulfill their financial reporting responsibilities (Aldridge & Colbert, 1994). Effective communication ensures that information flows down, across, and up the organizational hierarchy (Karagiorgos, Drogalas, & Giovanis, 2011). Several publications on internal control frameworks have raised concerns about information and communication, one of the internal control components that affects the working relationships among all departments within an organization (Amudo & Inanga, 2009). Adopting cutting-edge information communication technology is prudent in order to advance the revenue system's integration and information sharing capabilities, thereby increasing system effectiveness and efficiency (Visser & Erasmus, 2005) Cost management systems depend on the entry of relevant and trustworthy information, which is timely, accessible and uniform in format. Information includes the essential financial, operational and compliance facts and circumstances for decision-making. Internal data is an element of a record keeping process which should contain specified processes for record retention (Karagiorgos et al., 2011).

Monitoring is the practice of reviewing throughout time the quality of the internal control system (Doyle, Ge & McVay, 2007). Since internal checks are procedures, it is commonly acknowledged that the quality and efficiency of the system must be appropriately monitored throughout time. The County Government is guaranteed through monitoring that audit reports and other evaluations are quickly decided (Karagiorgos et al, 2011; Rezaee, Elam & Sharbatoghlie, 2001). Amudo and Inanga (2009) stated that monitoring ensures successful functioning of internal controls. County Government determines whether or not workers properly oversee its rules and processes, which have been drafted and carried out by county administration. Monitoring and evaluation may be performed through frequent monitoring and management activities such as monitoring and feedback on revenue collection processes as well as regular audits by internal auditors (Bowrin, 2004). County governments' efficiency in collecting revenue is contingent upon the effectiveness of their control environment, risk assessment, information and communication, and monitoring and evaluation (Ngugi, 2011).

Empirical Review

In the Kericho East national treasury in Kenya, Tinega, Naibei, and Cheruiyot (2018), carried out a research on the impact of the control environment on public spending. The studies have shown that in order to enhance management of government ministers' and public expenditure, internal control mechanisms, particularly the control environment, require considerable attention. Ngui (2017) examined the effect of environmental factors on revenue collection in Kenya's Kitui County. The study's findings indicated that the control environment had a significant effect on revenue collection, while organizational structure had no effect. Because their study did not include all indicators of the control environment, the current study sought to incorporate organizational discipline, organizational structure, ethical values, and integrity values and their effect on expenditure management. An empirical analysis was conducted by Haron, Jeyaraman & Chye (2010) on control environment and public sector expenditure management in Malaysian. The study discovered that control environment had a significant positive effect on expenditure management.. The study did not provide findings on what comprises the control environment and subsequently its effect on expenditure management. Mohammed (2018) conducted research into the effect of the control environment on expenditure management in South Africa's Kintampo municipal assembly. The obtained R square coefficient was 0.628, indicating that the control environment can account for 62.8 percent of the variance in revenue collection. Their study lacked the ethical values that the current study aimed to include. Lizal and Earnhart (2007) researched on effects of better environmental performance on revenue collection in Czech Republic. The findings of the study indicated that better environmental performance improves revenues collection and a drop in costs. Indicators of control environment were not exhaustive in their study, which the current study sought to incorporate organization discipline, organization structure and integrity values and its effect on expenditure management. Kinyua, Gakure, Gekara & Orwa (2015) carried out a study on the financial performance of securities exchange-listed businesses in Nairobi under the internal control environment. The study's findings indicated a strong correlation between the internal control environment and financial performance. The study did not incorporate the integrity and ethical values that the current study sought to incorporate as components of the control environment.

Kewo (2017) examined the effect of internal control activities on the financial performance of Indonesian local governments. The study found out that better implementation of internal control activities such as planning through budgetary allocations, Accountability and transparency, proper approvals and verification end up enabling the local government prepare credible and flawless financial statements, achievement of the organizations objectives and timely reporting, hence providing ample ground for sound and timely decision making. The indicators were not exhaustive in the study thus the current study sought to incorporate authorization, accuracy and relevance. According to Rendon and Rendon (2015), using a survey of 1350 persons was done and found out that lack of transparency and internal control weaknesses in the United States Department of defense led to huge loss of public funds through fraudulent expending activities. Upon detection of the anomaly, the Department quickly took up training to equip its workforce with the requisite skills in handling the procurement issues without equally addressing the issue of its internal control activities in regards to Expenditure procedures hence the much needed change wasn't realized. The study however did not elaborate the effect of internal control on expenditure management which the current study sought to find out. Muskanan (2014) found that most significant factor that contributes to top officials' lack of commitment is conflict of interest. Additionally, the study discovered that social conflict of interest was the most frequently cited reason for top officials' lack of commitment in RG in Kupang District, whereas political conflict of interest was the primary reason for top officials' lack of commitment in TTU District. The study did not address the effect of internal control on expenditure management, which was the purpose of the current study.

Omokonga (2014) indicated that information and communication reduced unregulated expedites, the study failed to identify any information and communications components that the current study sought to include, which have strong influence of adequate information and communications flow and a better management of the finances and governance of the organisations. In Ghana, Darison (2011) sought to determine the influence on development of local government revenues from information and communication. The results of the study showed that information and communications systems influence income creation through the preservation of communication channels. The study did not go into detail about the effect of information and communication on expenditure management, which was the purpose of the current study. In Meru county government's financial management, Mugambi (2019) performed a research on the use of information communications technology. The outcomes of the study showed that automation of the budgeting, collection of income and cash management is crucial for good financial management in Meru County. The study did not focus on expenditure management, which was the focus of the current study. Atieno, 2019 conducted research on the impact of an integrated financial management system on the performance of public finance in the Kisumu county government. The study's findings indicated that internal controls, as a component of integrated financial management systems, had a significant impact on the county's public finance management. The previous study did not address the effect of information and communication on expenditure management, which was revealed in the current study. Kibaara (2018) conducted a study on the impact of information communication technology adoption on the county government of Nairobi's successful revenue collection process. According to the study, information and communication had a significant positive effect on the revenue collection process. The study did not include indicators of information and communication such as timely reports, reliability, and relevance of information, which the current study sought to incorporate in order to determine the effects of information and communication on expenditure management.

Ibrahim and Lawal (2019) conducted a study on the management of public expenditure at the local government level in the Nigerian state of Katsina. The study's findings indicated that the local government had poor expenditure management, with little difference between actual and budgeted expenditures; however, in the majority of cases, actual expenditure exceeded budgeted estimates. The study was done on a Nigerian local government but the current study was conducted on a Kenyan county government. Carr (2012) carried out a research on private vendors in Ghana Electricity Company revenue collecting procedures. The study's findings indicated that monitoring assisted in regulating private vendors by enhancing the maintenance of accurate records of vending activities, thereby improving daily revenue collection. The study was done on private sector but the current study was conducted on county government of Kenya which is a public entity. A research on increasing tax income from income by the income authority was carried out in Nigeria by Obara and Nangih (2017), via their tax monitoring model. The results of the study showed a strong link between constant tax surveillance and internal income generated. The study excluded individual assessment and monitoring units, which the current study sought to include in order to ascertain their effect on expenditure management.

Libenth (2017) has out a research at the Tanzania tax authorities on the application of the Mckinsey 7s model for effective monitoring of income earnings. According to the study's findings, effective monitoring has a significant effect on revenue collection. The study employed the Mckinsey 7s model but overlooked the importance of individual assessment and continuous monitoring, which the current study sought to incorporate in determining the model's effect on expenditure management. Apollo (2017) carried out a research on compliance with taxpayers' obligations and the performance of local authorities in Uganda. In the study, the monitoring of compliance with taxpayers with local revenues in the local Lira District Government found an important beneficial link. The efficacy of county-government monitoring and evaluation mechanisms for implementing county-government projects was examined in Onyango (2017): a case study by the county of Kirinyaga in Kenya. In this study, 106 county government employees were surveyed by use of a descriptive survey design and data collection questionnaire. The study dicovered that monitoring and evaluation plans are being carried out however more needs to be done to ensure proper flow of communication the end user to enhance their capability to embrace the monitoring and evaluation aspect Moreover, there was poor funding of the monitoring and evaluation process though the budget existed and no proper oversight of expenditures by the officials had been carried out in the implementation of the budgeted projects The study did not however expound on the effect of monitoring on expenditure management. Mutua (2017) conducted a study on the relationship between commercial state corporations' monitoring and revenue collection in Kenya. The study discovered a positive and significant correlation between surveillance and revenue collection for commercial state corporations. Mutua (2017) discovered a significant positive correlation between monitoring and revenue collection for commercial state corporations in Kenya. The study concluded that revenue collection for commercial states corporations in Kenya is significantly affected by monitoring activities. Effect of continuous monitoring on expenditure management was not incorporated in their study which the current study sought to incorporate)

III. Material And Methods

The research was based on explanatory research design. Cohen et al (2013) elaborated that explanatory research design assists the researcher to discover the reasons for certain happenings since identification of causal reasons to variables in the research questions is its key objective. The target population was members of the Nandi County Departments of Finance and Economic Planning. The department includes 125 employees from revenue department, 62 staffs from finance and accounting department, 38 staffs from internal audit department and 16 staffs from planning department. The sample size of 150 was derived with the Yamane's formulation (1967) for the limited population. Proportionate stratified sampling was used to allocate the stratum samples. Simple random sampling was used to get samples of employees from the different strata. The actual enterprises for data collection will be arrived at by using stratified random sampling from each stratum. The stratification was based on revenue department, finance and accounting department, internal audit department and planning. The researcher used semi - structured questionnaires with close ended questions in the collection of primary data from the field. The validity and reliability of instruments was tested by piloting. The researchers carried up a pilot study with questions from 10% of the financial personnel in the Kericho County Government, who were filled by the interviewees. The questionnaires items were subjected to Cronbach's Alpha test of reliability. The pilot results indicated that the reliability of expenditure management was 0.770 using Cronbach's alpha test of reliability; control environment was 0.701; control activities was 0.703; information and communication was 0.715; monitoring was 0.771. The results revealed that all the variables gave an alpha test value of greater than 0.70, therefore all the items were regarded reliable. The researcher analyzed the data using both descriptive and inferential statistics. The regression equations were as follows:

$$Y = \beta o + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where:- y = Nandi County Government Expenditure; X_1= Control Environment; X_2= Control Activities, X_3= Monitoring, X_4= information and communication

IV. Result and Discussion

Descriptive Statistics on Expenditure Management of Nandi County

The study focused on expenditure management of Nandi County and partially addressed on, capital, recurrent expenditures and statutory expenses as the main indicators of expenditures in Nandi County. The researcher wanted the opinions of the respondents on how such indicators relate to management of expenditure in Nandi County. The results were as presented in the Table 1.0.

Table 1.0: Descriptive Statistics on Expenditure Management of Nandi County

		S.D	D	N	A	S.A	Mean	Std. Dev.
The county government capital expenditures are unmanageable	F	21	16	22	33	44	3.44	1.438
	%	15.7	11.9	16.4	24.6	31.3		
Recurrent expenditures of the county are unsustainable	F	10	24	39	38	25	3.31	1.185
	%	7.5	17.9	29.1	26.9	18.7		
County government delays in payment of statutory expenses	F	15	21	45	39	16	3.12	1.144
	%	11.2	15.7	33.6	29.1	10.1		

The participants in the research were asked to reply to the assertion that capital expenditures are unmanageable. The results of the survey in Table 1.0 reveal that 77(55.9 per cent) most respondents have agreed that government expenditures of the county of Nandi are not controllable. The statements were not accepted by 37(27.6%) of the respondents. It was supported with this finding (mean=3.44, std. Dev.=1.438). Lack of management leads to inefficient spending and lack of clarity in line with Oluwatobi & Ogunrinola's findings (2011). The findings of the descriptive statistics imply that majority of respondents agreed that capital expenditures are unmanageable in Nandi county government. In replies, the majority of respondents 63 (46.3%) believe that recurrent expenses are unrealistic. In Table 4.11, the county has been invited to say that their recurring expends are unsustainable from the results of the study. The statements were diverging 34(25.0 percent) from the respondents. The mean (mean=3.21, StD. Dev.=1.185) has also been supported. The results of the descriptive statistics show that the majority of respondents believed that the control of spending may be achieved when recurring costs are realistic.

Finally, the research respondents were asked to indicate that the county government delays the making of statutory costs. The outcomes of the study given in Table 1.0 show that most respondents agreed with 55 (40.5%), while 36(26.5%) disagreed with the declaration. This conclusion was also confirmed by a mean (mean=3.12, std. Dev.=1.144). The results of the descriptive statistics suggest that most respondents believed that the government should pay statutory spending to manage expenses.

Inferential analysis

Inferential analysis was done to identify the link between the variables of the research. The study carried out inferential analysis utilizing the correlation coefficient and regression analysis for Pearson's product moment. The analysis of correlation between dependent and independent variables was performed to identify where a significant relationship existed between these variables. The findings of the analysis are as shown below:

Correlation Analysis

The relationship between control environment and expenditure management was analyzed. The results show positive and statistically significant relationship with ($r = 0.514$; $p< 0.05$). This implies that a unit change in control environment leads to 51.4% change in expenditure management in Nandi County Government. Therefore, this clearly indicates that County governments in Kenya should put emphasis on control environment as a positive element in enhancing management of expenses. The correlation results are in tandem with the findings of Tinega et al., (2018) on his study on the effect of internal control on expenditure management in Kericho East district. The study established that control environment has a positive and significant effect on expenditure management. The relationship between control activities and expenditure management was analyzed. The results show a positive and statistically significant relationship with ($r = 0.691$; $p< 0.05$). This implies that a unit change in control activities leads to 69.1% change on expenditure management. Therefore, County governments in Kenya should see control activities as a positive element in management of expenses. The relationship between information and communication and expenditure management was analyzed. The results indicate a positive and statistically significant relationship with ($r = 0.788$; $p< 0.05$). This implies that a unit change in information and communication leads 78.8% change on expenditure management. Therefore, it is necessary for County governments in Kenya to view information and communication as a positive element in enhancing expenditure management. The finding concurs with Mugambi (2019) on their study on Effect of information communication technology adoption on financial management in meru county government. Thus, it established that information and communication has a positive and significant effect on expenditure management. The relationship between monitoring and expenditure management was analyzed. The results show a positive and statistically significant relationship with($r = 0.672$, $p < 0.05$). This implies that a unit change in monitoring leads to 67.2% change on expenditure management. Therefore, it's established that County governments in Kenya should establish monitoring measures in as an enhancement in expenditure management. The finding concurs with Tinega et al., (2018) study on the relationship between monitoring and expenditure management. They established that monitoring has a positive and significant effect on expenditure management.

Table 2.0: Overall Correlation Analysis Results

		Expenditure Management	Control Environment	Control Activities	Information and Communication
Expenditure Management	Pearson correlation	1			
	Sig.(2 tailed)				
Control environment	Pearson correlation	.514*	1		
	Sig.(2 tailed)	.013			
Control Activities	Pearson correlation	.691*	.594**	1	
	Sig.(2 tailed)	.027	.001		
Information and communication	Pearson correlation	.788*	.405**	.439**	1
	Sig.(2 tailed)	.001	.000	.000	
Monitoring	Pearson correlation	.672*	.234**	.758**	.680**
	Sig.(2 tailed)	.000	.006	.000	.000

** Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).
Source: Researcher (2020)

Multiple Regression Analysis

The study used multiple linear regression analysis to determine the combined linear relationship between the dependent variable (expenditure management) and independent variable (control environment, control activities, information and communication and monitoring). The results from multiple regression analysis are shown in Table 3.0.

Table 3.0: Multiple Regression Model Summary

Model Summary

Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.743[a]	.196	.571	2.696

Model		**Sum of Squares**	**Df**	**Mean Square**	**F**	**Sig.**
1	Regression	228.550	4	57.137	7.864	.000[b]
	Residual	937.279	129	7.266		
	Total	1165.828	133			

Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**T**	**Sig.**
		B	Std. Error	Beta		
1	(Constant)	6.080	1.705		3.566	.000
	Control environment	.186	.100	.165	1.851	.000
	Control Activities	.112	.117	.043	.540	.001
	Information& communication	.153	.093	.161	1.650	.000
	Monitoring	.427	.120	.347	3.559	.000

Dependent Variable: Expenditure Management
Source: Researcher (2020)

The R-square from the table above will be used to measure the model's best fit. R square determination coefficient is the statistical measure of the approximation of the true data by the regression line. It quantifies the ratio of the dependent variable variation. R – is the numerous coefficients of correlation that were regarded one of the prediction quality measure for the dependent variable (expenditure management) in the study. This showed that the independent variables had a substantial connection with the dependents. R^2 was the determination coefficient at 0.196, which shows the variance ratio in the dependent variable explained by the independent variables. Thus, the results indicated that only 19.6 percent of the overall variances in the administration of expenses represented the independent variables taken combined. The R- Squared adapted is a modified version of the R-squared adapted to the number of predictors in the model showing a combined difference in controlling, control, information and communication and expenditure management accounting of the 0,571. The default error in the 2.696 estimate shows how the regression model uses dependent variable devices.

Analysis of variance (ANOVA) was employed to measure the differences in means between expenditure management and its predictor variables. The F-ratio was 7.864, which is the variable factor with 4 degrees of freedom. This reflected the regression model's impact size and the model is significant to 95% confidence ($p<0.05$) which indicates that the above stated independent factors can predict expenditure management. T-test was performed on the statistical meaning of each regression coefficient in order to establish the beta, showing how strongly every independent variable impacts the dependent variable.

Table 3.0 provides findings for the regression coefficients with positive, substantial effects of the control environment on the management of expenses (β=0.186; $p<0.05$), positive and meaningful effects of control activity on spending (β=0.112; $p<0.05$) Information and communication were positive and significant on the management of expenditure and the surveillance had a positive and significant expenditure impact (β=0.153; $p<0.05$) and on the management of expenditure (β=0.427; $p<0.05$). The regression model for expenditure management can be outlined as follows;

$$\mathbf{Y = 6.080 + 0.186X_1 + 0.112\ X_2 + 0.153\ X_3 + 0.427\ X_4}$$

The constant value of 6.080 implies that at zero control environment, control activities, information and communication and monitoring expenditure management is at 6.080 units. The coefficient 0.186 implies that improvement of control environment by one unit increases expenditure management of Nandi county government by 0.186 units, coefficient 0.112 implies that improvement of control activities by one unit increases expenditure management by 0.112 units, coefficient 0.153 implies that improvement of information and communication by one unit increases expenditure management by 0.153 units and coefficient 0.427 implies that improvement of monitoring by one unit increases expenditure management by 0.427 units.

Hypotheses Testing

The study was guided by four hypotheses which were tested at a predictable level of 0.05. The results are summarized in table 3.0.

1) Hypothesis Testing of Control Environment and Expenditure Management

The first null hypothesis ($H0_1$) predicted that control environment has no significant effect on expenditure management in Nandi County. The results in table 3.0 indicate that control environment has a positive and significant effect on expenditure management in Nandi county (β=0.186; $p < 0.05$). The study therefore rejected the null hypothesis at 95% level of significance and accepted the alternative hypothesis which showed that control environment has a sizable impact on Nandi County's expenditure management. This means that control environment is attributed to the fact that it sets the tone and fosters an organizational culture of integrity, both of which are necessary for improving expenditure management. These findings are corroboration of the conclusions of Whittington and Pany (2001), which control environmental factors, such as integrity and ethics; a commitment to competence; the philosophy and functioning of leadership; and the way management gives authority and responsibility to, organizes and developing its employees. In addition, the study findings coincide with COSO (2013) that key environmental controls include the integrity, ethical values and competence of the company; the management's philosophy and operational style; how management assigns, organizes and develops authority and responsibility to its people; and the attention and direction of the board of directors. Additionally, the study's findings corroborate those of Tinega Naibei and Cheruiyoit (2018), who determined that control environments are necessary and significant to public expenditure and thus require special attention in order to improve government ministries' and departments' public expenditure management.

2) Hypothesis Testing of Control Activities and Expenditure Management

The second null hypothesis ($H0_2$) stated that; control activities have no significant effect on expenditure management in Nandi County. The study findings indicated that there was positive and statistical significant effect of control activities on expenditure management (β=0.112; $p < 0.05$). The study therefore rejected the null hypothesis at 95% level of significance. This implies that control activities are a necessary tool to enhance areas of improvement in expenditure management. These findings concur with the findings by Kewo (2017) who found that control activities have a significant effect on expenditure management. These findings also concur to those found by Muskanan (2014) who indicated the need to use control activities tools for enhancement of in fiscal decentralization application in Malasyia.

3) *Hypothesis Testing of Information and Communication and Expenditure Management*

The third hypothesis ($H0_3$) stated that; information and communication has no significant effect on expenditure management in Nandi County. The study findings indicated that there was a positive and significant effect on expenditure management (β=0.153; $p < 0.05$). The study therefore rejected the null hypothesis at 95% level of significance and accepted the alternate hypothesis which showed information and communication had significant effect on expenditure management in Nandi County. These findings are attributed to the fact that information and communication ensures that all expenses are captured thus enhancing expenditure management. These findings concur to the study by Odoyo et al. (2013) who noted that information and communication is a necessary tool in ensuring proper accounting of funds. However the findings contradict with findings of Tinega et al., (2018) who found that communication channels were insignificant in expenditure management.

4) *Hypothesis Testing of Monitoring and Expenditure Management*

The fourth hypothesis ($H0_4$) stated that; monitoring has no significant effect on expenditure management in Nandi County. The study findings indicated that there was statistical significant effect of monitoring on expenditure management (β=0.427; $p < 0.05$). The study therefore rejected the null hypothesis at 95% level of significance and accepted the alternate hypothesis which showed that there was effect of monitoring on expenditure management in Nandi County. These findings are attributed to the fact that monitoring is a necessary tool in ensuring internal controls are working efficiently in effort to ensure expenditure management. The findings are in agreement to study done by Ibrahim and Lawal (2019) which found that monitoring positively influences expenditure management. These findings also concur to those found by Tinega et al., (2018) who indicated the need for continuous monitoring for the achievement of expenditure management.

V. Conclusion and Recommendation

From the findings, the following conclusions can be established. Control environment is a necessary for the achievement of expenditure management. Control environment when implemented allows virtues of integrity among employees in finance departments which boost accountability in the utilization of the limited resources. Control environment also will also go hand in hand in setting a culture of responsibility within an organization that can be emulated by any employee in regard to expenditure management. It is also concluded that control activities being necessary tool for detecting mismanagement of expenditure by the County Government. Additionally, the study concluded that information and communication contributes to expenditure management. The advantage of having an effective information and communication process is that it allows credibility of information and also ensures timely information for decision making is achieved. It is relatively important to ensure information in regard to expenditure management is accurate and reliable in order to determine the capacity of county government in terms of expenditure management. Finally, the study concluded that monitoring has a significant effect on expenditure management by the County Government. Continuous monitoring of the expenditure management process helps to determine whether the systems in regard to expenditure management are working efficiently. It's necessary to note that monitoring acts as a deterrent effect for the employees who may interfere with the systems of expenditure management for their own benefit.

The following suggestions for action are made in this study: Control Environment has exhibited a significant effect on expenditure management. It is therefore recommended that the management of the county governments in liaison with other key policy stakeholders should ensure that control environment is maintained in county governments. Control environment can be implemented by ensuring policies on ethical values are upheld by the expenditure management officers in the county governments. Also it is necessary to ensure integrity among employees in expenditure management department. The county government's management should adopt policies on control activities which will help to enhance expenditure management. County governments should ensure that there is effective information and communication line that will ensure information on expenditure management is received on timely basis to enhance decision making. An effective information and communication network will ensure relevant and reliable information in regard to management of expenditure in the county government. Finally, county governments should ensure there is continuous monitoring of the expenditure in county governments. This can be possible through adoption of standards that provide for continuous monitoring and establishment of an independent monitoring unit to oversee expenditure management in the entire county.

The study showed that control environment is a critical factor for enhancement of expenditure management in county governments. The study also indicated that information and communication is a necessary factor for the achievement of expenditure management. This is supported by the technology acceptance model which alludes to the importance of having an efficient information and communication system which can be trusted. Reliable information is necessary in making accurate decisions. It's through the information governments can be able to know their status on how much has been spent to a certain period.

Information and communication will be useful if it's communicated down, upwards and across all necessary departments responsible for consuming the information. Lastly, the study indicated that monitoring is a critical factor for enhancement of expenditure management. This is supported by stewardship theory that explains the importance of effortless periodic reviews for corrective actions to be taken. Control is meant to keep performance or a state of affairs within what is allowed or accepted and should be championed by the entire implementation team. Monitoring will ensure all the internal control processes are working efficiently. Managements should endeavor to keep watch of all movements of expenses through auditors who can be watch dogs for management by ensuring accountability of actions is observed by individuals tasked in management of expenditure.

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